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The Conference Board

Economic and Business Environment Program

Survey Of Financial Indicators

Volume 1, Number 4 October 1988

Introductory Note: This is the twenty-fifth issue of a semiannual Conference Board survey of a panel of senior financial executives of leading U.S. nonfinancial corporations. The survey reports the executives' financing plans based on their economic and financial expectations.

According to 26 senior financial executives who participated in the October 1988 survey:

- The U.S. economy will continue to grow, albeit more slowly, in 1989 and 1990.
- Inflation will average 4.4 and 4.5 percent respectively in those years, but interest rates in 1990 will be lower due to slower real growth.
- Corporate before-tax profits are expected to rise by an average of 8.6 percent in the next 12 months.
- The German mark and the Japanese yen will strengthen slightly against the U.S. dollar in the coming six months.

Slower Growth Ahead:

Most of the surveyed executives see the economy growing between 2 percent and 4 percent in 1989 and in 1990, with real growth averaging 2.5 percent and 2.2 percent respectively. Only five of the participants foresee a recession in each year; among these one is forecasting a sharp decline, in 1990. These financial executives' views differ sharply from a recent poll of business economists, nearly 90 percent of whom see a recession occurring in the next two years. (See "Business Economists See No U.S. Recession in 1989," The Wall Street Journal, September 27, 1988). Most of the responding financial executives expect inflation, as measured by the GNP deflator, to rise moderately—to an average of 4.4 percent in 1989 and 4.5 percent in 1990. Surprisingly, only one executive sees the average rate of inflation reaching 6 percent (in 1990). Both short-term and long-term interest rates are forecast to remain, on average, close to their October 1988 levels in 1989 and to decline moderately in 1990.

Next year's Aaa rate, for instance, is expected to average 10.1 percent and to slip to 9.6 percent in 1990. Reflecting their view that only minor changes will take place in interest rates and inflation, the executives see the Dow-Jones index remaining in a relatively narrow trading range, averaging 2103 in 1989 and 2218 in 1990.

Higher Reliance on Internal Funds Will Continue:

In the October 1987 survey, the participants indicated that they planned to rely more heavily on internally generated funds to finance their firms operations. There was evidence that they had begun to do so, when the April 1988 survey showed in-

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ternal funds rising from 70 percent to 78 percent of total funds. The current survey confirms this shift: internal funds rose to 87 percent of total corporate funds over the past 12 months. This figure is well above the 80 percent average that has prevailed since the survey began in 1976. Regarding external funds, surveyed companies relied mainly on bonds, commercial paper, and bank term loans, and substantially reduced equity issues in the past 12 months. Most executives see little change in the extent to which they will rely on internal versus external funds in the coming 12 months. Three of them foresee a greater use of private placements as a percentage of external funds in coming months.

Lower Profits Ahead:

Surveyed executives estimate that profits will rise by an average of 8.6 percent in 1989. Like their economic forecasts, the respondents' profit projections fall within a much narrower range than in the past two years: no executive, for instance, expects profits to rise by more than 31 percent. The outlook for lower profits is consistent with the panel's view that the economy will grow at moderately lower rates next year.

PROFIT OUTLOOK
(number of panel members)

	Less than 0	*Zero to less than 10%*	*10% but less than 20%*	*20% but less than 30%*	*30% and above*	*Range*	*Average*
Oct. 1985	3	8	6	3	1	(20)- 40	8.3
Oct. 1986	4	5	6	1	3	(50)-232	17.4
Oct. 1987	1	2	9	4	1	(34)-100	16.2
Oct. 1988	1	7	5	3	1	(29)- 31	8.6

A Moderately Lower U.S. Dollar in 1989:

The majority of executives whose companies engage in international operations see the German mark and the Japanese yen strengthening by 1 to 5 percent against the U.S. dollar in the remaining months of 1988 and in the first three months of 1989. More executives see the pound strengthening against the dollar than *vice versa* by March 31, 1989. Most executives in the survey do not see a rise in the dollar price of gold in each forecast period, confirming the relatively low inflation estimates of the panel.

Vincent G. Massaro

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average Dec. '88 (4th Q GNP)	Outlook: Average March '89 (1st Q GNP)	Outlook: Average 1989	Outlook: Average 1990
New Aaa industrial rate (%)	9.5	10.0	10.2	10.1	9.6
Prime rate (%)	9.5	9.9	10.1	10.0	9.5
Dow-Jones Average (Index)	2104.0	2053.0	2062.0	2103.0	2218.0
Real GNP (%)	3.1	2.8	2.9	2.5	2.2
GNP deflator (%)	4.1	4.2	4.6	4.4	4.5

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of *Total* Funds						
Internal Funds*	87	16	1	2	0	2
External Funds	13	16	0	2	0	0
	100%					
(b) Composition of *External Funds*						
Net new bond issues	43.2	9	1	1	0	4
Private placements	3.7	12	1	2	0	0
Net new equity	0.1	13	0	2	0	0
Bank term loans	16.3	13	0	1	0	1
Bank short-term loans	5.2	14	0	1	0	0
Commercial paper	31.6	10	1	3	0	1
Other	(0.1)	13	0	2	0	0
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1988 :

	Latest Available	Expected Change: By December 31, 1988 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By March 31, 1989 — Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8090	13	1	0	1	0	11	5	1	6	1
British pound	1.67	6	9	0	7	2	8	5	5	6	0
German mark	.5330	1	14	1	6	2	5	10	5	4	0
Japanese yen	.0073	1	11	5	7	0	4	8	9	3	0
Gold	$430.40	5	6	1	4	5	6	5	2	6	2

UPCOMING MEETINGS AND CONFERENCES FOR SENIOR EXECUTIVES

Nov.. 10	San Francisco	The Mark-Hopkins	Financial Briefing for Executives
Nov. 17	New York	The Plaza	Financial Briefing for Executives
Nov. 23	Brussels, Belgium	Generale de Banque	International Business and Financial Outlook Conference
1989			
Feb. 22-23	New York	The Waldorf-Astoria	1989 Financial Outlook Conference
Apr. 3	Atlanta	The Ritz-Carlton	Financial Briefing for Executives
May 2	Chicago	The Fairmont Hotel	Mid-Year Business Outlook Conference
Oct. 4	New York	The Waldorf-Astoria	1990 Business Outlook Conference

The Conference Board

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Survey Of Financial Indicators

Volume 1, Number 5 April 1989

Introductory Note: This is the twenty-sixth issue of a semiannual Conference Board survey of a panel of senior financial executives of leading U.S. nonfinancial corporations. The survey reports the executives' financing plans based on their economic and financial expectations.

According to the 29 senior financial executives who participated in the survey (mailed February 1989):

- The growth of business activity will slow both this year and next, but no recession is expected.
- Inflation will average 4.6 percent in the next two years and somewhat less in the following three years.
- Interest rates will remain high this year but will decline in 1990.
- The German mark and the Japanese yen will strengthen against the U.S. dollar in the next two quarters.

Slower Growth In 1990:

The key economic issue at the time of the survey was whether or not inflation was accelerating and U.S. business activity was near a turning point. The 29 financial executives surveyed see another year of growth in 1989 and a soft-landing for the economy in 1990. All except one executive see the economy growing between 2 percent and 4 percent this year, while thirteen executives look for growth to be less than 2 percent in 1990—the lowest estimate being 0.5 percent. The respondents predicted an average rate of real growth of 2.6 percent in 1989 and 1.9 percent in 1990.

Both long and short-term interest rate forecasts reflect the anticipated slowing of the economy: the Aaa rate is expected to fall from an average of 10.3 percent this year to 9.3 percent in 1990 and the prime rate will drop from an average of 11.2 percent this year to 10 percent next year. As in the October 1988 survey, the executives call for the Dow Jones index to remain in a relatively narrow trading range, averaging 2214 in 1989 and 2271 next year.

Most executives see relatively little change in inflation this year and next. None look for inflation to average more than 6 percent in either year—and only three see it averaging that high, all in 1990. The panel looks for the GNP deflator to average 4.6 percent in both years. It is not unusual for the rate of inflation to remain at or near its past level when economic growth slows initially. The key issue, of course, is whether a soft-landing will in fact occur, since most attempts to bring one about have not been successful.

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Inflation To Slow In the Next Five Years:

In the April 1988 survey, the panel sharply lifted its five-year outlook for inflation, from 3.9 percent to 4.8 percent, reversing lower inflation expectations for the first time since 1984. In the present survey, panel members once again see lower inflation ahead, looking for the GNP deflator to average 4.5 percent during the next five years. The panel's outlook for the next two years (4.6 percent) implies that the GNP deflator will average roughly 4.4 percent in the period 1991-93.

THE PANEL'S FIVE-YEAR OUTLOOK FOR INFLATION

Number of Panel Members

	Less than 4 percent	*4 percent but less than 5 percent*	*5 percent but less than 6 percent*	*6 percent but less than 7 percent*	*7 percent and above*	*Range*	*Average*
April 1983	1	5	15	6	4	2.5-8.2	5.6
April 1984	1	2	9	19	4	3.5-7.1	5.9
April 1985	4	15	14	4	0	2.8-6.5	4.8
April 1986	9	13	2	2	0	2.5-6.5	4.1
April 1987	11	10	1	0	1	2.0-8.0	3.9
April 1988	1	9	9	1	1	2.8-8.0	4.8
April 1989	2	13	8	0	0	3.5-5.5	4.5

More Corporate Use of Bonds and Commercial Paper:

The shift toward greater reliance on internally generated funds that has been underway since October 1987 may be coming to an end. Internal funds averaged 85 percent of the total funds over the past 12 months, a figure that is well above the 80 percent average that has prevailed since the survey began in 1976. Seven executives are looking for their companies to rely more heavily on external funds in the coming twelve month period. Also, eight executives plan to rely more heavily on new bond issues, and seven more heavily on commercial paper. Net new bond issues fell from 43 percent to 31 percent of external funds in the past 12 months, while privately-placed debt rose in relative importance from less than 4 percent to roughly 12 percent.

A Reversal of the Dollar's Strength:

The majority of the executives whose companies engage in international operations see the German mark and the Japanese yen appreciating against the U.S. dollar in the forecast periods that end June 30, 1989 and September 30, 1989. Nineteen executives see the mark appreciating by June 30, and 17 see it appreciating by September 30. Eighteen panel members see the yen appreciating by June 30, while 19 see it strengthening by September 30.

The panel's views are mixed regarding the Canadian dollar, the British pound, and the future price of gold. In both the short- and long-term forecast periods, however, executives who expect the Canadian dollar to depreciate against the U.S. dollar outnumber those who anticipate a strengthening against the U.S. dollar.

The mixed outlook for the dollar price of gold is consistent with the steady rate of inflation that panel members are anticipating.

Vincent G. Massaro

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

	Latest Available	Outlook			
	Average (at time	Average June '89	Average Sept. '89	Average 1989	Average 1990
Indicator	of Survey)	(2nd Q GNP)	(3rd Q GNP)		
New Aaa industrial rate (%)	9.5	10.2	9.8	10.3	9.3
Prime rate (%)	10.5	11.6	11.5	11.2	10.0
Dow-Jones Average (Index)	2235.0	2236.0	2236.0	2214.0	2271.0
Real GNP (%)	2.0	2.4	2.3	2.6	1.9
GNP deflator (%)	4.7	4.7	4.7	4.6	4.6

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	B Outlook (coming 12 months)—Number of Respondents				
	Actual (past 12 months)	Stable (Up or Down by less than 5 percentage points)	Up (percentage points) 5-9.99	Up (percentage points) 10 or more	Down (percentage points) 5-9.99	Down (percentage points) 10 or more
(a) Composition of *Total* Funds						
Internal Funds*	85	12	4	1	2	5
External Funds	15	12	2	5	4	1
	100%					
(b) Composition of *External Funds*						
Net new bond issues	31.3	6	1	7	0	4
Private placements	11.9	15	0	2	1	0
Net new equity	6.9	14	0	1	1	2
Bank term loans	8.1	13	1	1	1	2
Bank short-term loans	8.3	11	0	4	2	1
Commercial paper	33.5	9	1	6	0	2
Other	0	17	0	1	0	0
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of March 1, 1989 :

		Expected Change									
	Latest Available	By June 30, 1989					By September 30, 1989				
		Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .8340	15	2	0	10	0	10	5	1	9	2
British pound	1.74	11	6	1	8	0	10	5	1	7	3
German mark	.5486	5	14	5	2	0	4	10	7	2	3
Japanese yen	.0079	8	14	4	0	0	4	12	7	1	2
Gold	$387.00	7	8	1	6	0	7	5	2	6	2

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May 2	Chicago	The Fairmont Hotel	Mid-Year Business Outlook Conference
Oct. 4	New York	The Waldorf-Astoria	1990 Business Outlook Conference
Oct. 17	London	The London Marriott	International Business and Financial Outlook Conference
Nov. 8	San Francisco	The Mark Hopkins	Financial Briefing for Executives
Nov. 16	New York	The Plaza	Financial Briefing for Executives
1990			
Feb. 14, 15	New York	The Waldorf-Astoria	1990 Financial Outlook Conference
Apr. 24	Chicago	The Ritz Carlton	Financial Briefing for Executives

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